

1057-91-31

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University of Kentucky, Lexington, KY 40507. *Experts and quacks.*

What happens when “type” is endogenous in a reputational setting? Here, customers cannot tell “experts” from imitative “quacks”, but gain information through repeated interaction. Firm incentives to invest in expertise vary non-monotonically in how tolerant customers are of bad outcomes; more tolerant customers are both more forgiving, making expertise less necessary, and longer-tenured, increasing the value of retaining them. In equilibrium, the proportion of expert firms is bounded away from one; some quacks are necessary to keep incentives of experts in line. The fraction of experts is decreasing in customers’ switching costs and the relative cost of expertise over quackery. (Received December 08, 2009)